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Report Highlights:

Poland's 2003/04 sugar production is only 3.6 percent lower than the MY 2002/03 level. It is estimated that about 0.5 MMT of current year sugar production will be exported (about 110,000 tons with subsidies), while the majority will have to be sold at world market prices. On May 1, 2004 Poland will join the EU and its production policies will mirror those of the EU. Sources indicate that sugar beet producers and the sugar industry should benefit from the new production and market conditions.

Includes PSD Changes: No
Includes Trade Matrix: No
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Executive Summary

Poland's sugar production declined slightly (3.6 percent) in 2003/04 compared to the good production results in MY 2002/03 (highest level in 6 years). The good sugar production result was achieved due to a record high sugar concentration in beets and a record high sugar yield, which in large part compensated for the 6 percent reduced beet acreage and 12.6% beet crop reduction. The MY 2003/04 sugar production exceeded 353,000 tons domestic A and B quotas of raw sugar production.

Domestic sugar consumption is stable and stocks should decline before EU accession. In addition, sugar exports from MY 2003/05 should reach almost 0.5 MMT. The majority of MY 2003/04 production will be exported at world market prices, while only 111,091 tons of sugar (102,200 tons of white sugar) will be exported with subsidies.

Current sugar laws and regulations are designed to stabilize beet production, support farmers, and to bring Poland's sugar sector into compliance with EU policy. Poland's agreed to EU sugar production quotas are similar to the most recent sugar quotas in Poland. Sugar production quotas for Poland are set at 1,580,000 tons white sugar (1,717,460 ton of raw sugar) for domestic use quota A and 91,926 tons quota B (99,924 tons of raw sugar) for export with subsidies. For iso-glucose production, the total agreed to quota is 26,781 tons (quota A 24,911 tons and quota B 1,870 tons). The iso-glucose quota is far below the current 120,000 tons domestic iso-glucose capacity. Under EU regulations sugar beet and sugar prices will rise significantly. Sugar beet farmers and the sugar industry in general are expected to benefit. The industry, however, should restructure and modernize significantly to be competitive.

Sugar Beets PSD Table

Country Commodity	Poland				(1000 HA)(1000 MT)		UOM
	2003	Revised	2004	Estimate	2005	Forecast	
Market Year Begin	USDA Official [	Estimate [09/2002	DA Official [	Estimate [09/2003	DA Official [	Estimate [New] 09/2004	MM/YYYY
Area Planted	303	303	290	286	0	0	(1000 HA)
Area Harvested	303	303	290	286	0	0	(1000 HA)
Production	11700	13434	10500	11740	0	0	(1000 MT)
TOTAL SUPPLY	11700	13434	10500	11740	0	0	(1000 MT)
Utilization for Sugar	11700	13434	10500	11740	0	0	(1000 MT)
Utilizatr for Alcohol	0	0	0	0	0	0	(1000 MT)
TOTAL UTILIZATION	11700	13434	10500	11740	0	0	(1000 MT)

Centrifugal Sugar PS&D Table

Country	Poland						
Commodity	Centrifugal Sugar						(1000 MT)
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [	Estimate [DA	Official [	Estimate [DA	Official [	Estimate [New]	
Market Year Begin	09/2002			09/2003		09/2004	MM/YYYY
Beginning Stocks	238	238	355	336	304	301	(1000 MT)
Beet Sugar Production	2194	2194	2065	2116	0	0	(1000 MT)
Cane Sugar Production	0	0	0	0	0	0	(1000 MT)
TOTAL Sugar Production	2194	2194	2065	2116	0	0	(1000 MT)
Raw Imports	0	9	0	0	0	0	(1000 MT)
Refined Imp.(Raw Val)	85	81	55	55	0	0	(1000 MT)
TOTAL Imports	85	90	55	55	0	0	(1000 MT)
TOTAL SUPPLY	2517	2522	2475	2507	304	301	(1000 MT)
Raw Exports	0	13	0	0	0	0	(1000 MT)
Refined Exp.(Raw Val)	434	445	435	478	0	0	(1000 MT)
TOTAL EXPORTS	434	458	435	478	0	0	(1000 MT)
Human Dom. Consumptic	1712	1712	1720	1712	0	0	(1000 MT)
Other Disappearance	16	16	16	16	0	0	(1000 MT)
Total Disappearance	1728	1728	1736	1728	0	0	(1000 MT)
Ending Stocks	355	336	304	301	0	301	(1000 MT)
TOTAL DISTRIBUTION	2517	2522	2475	2507	0	301	(1000 MT)

Production

As a result of dry weather and 6 percent reduced planting, Poland's 2003/04 sugar beet production fell 12.3 percent compared to 2002/03 production. Sugar beet production is based on farmers' contracts with the sugar industry. The scale of production depends on sugar production quotas set by the GoP. Sugar beet production is usually competitive with other farm crops. The basic sugar beet price for MY 2003/04 was set at PLN 125.35. The basic price level resulted in a minimum price paid to farmers for beets delivered within quota A at PLN 122.84 per ton (31.5) of beets with 16% sugar content (it was PLN 115 per for MY 2002/03) and PLN 85.24 per ton of beets delivered within quota B. These prices were modified according to the beet sugar content. Beet production, which exceeds contract levels for quota A and B, is priced far below the average prices (see policy section for current and forecasted year price regulations).

Even though the weather reduced the MY 2003/04 beet crop, there was higher sugar content in beets and sugar yields. A record high 18 plus percent sugar beet content was reported as average for processed beets in 2003/04. That brought a record high raw sugar yield (18 percent) and a record high sugar yield per hectare, 7.4 tons per hectare of raw sugar. Consequently, sugar production in 2003/04 was only 3.6 percent smaller than in the 2002/03. This production was about 353,000 tons of raw sugar equivalent (20 percent) larger than production A quota (1,652,240 tons allocated for the local market) and B quota (111,091 tons allowed to be exported with subsidies) combined. The 353,000 tons should be exported without subsidies.

-Processing Infrastructure:

Poland is Europe's third largest sugar producer behind France and Germany. The Polish government supported the refining industry through enforced production quotas, price supports, high tariffs on imported sugar and export subsidies.

Of the 76 sugar refineries in Poland, 49 have foreign capital invested. Currently, companies with foreign capital account for almost 60% of total sugar production. In March 2003, a percentage of Silesia sugar holding was sold to Saint Louis Sucre, a French firm financially related with Sudzucker. Currently, the largest foreign companies are Sudzucker with 22 refineries, Pfeifer und Langen with 11 refineries, British Sugar Overseas with 10 refineries, and Nordzucker with 6 refineries. In August 2002 a new Polish Sugar Holding (PSH) company was created from 22 refineries. Shares of the holding will be sold/transferred to farmers and processing industry workers. Some politicians had hoped to form PSH from over 50 local companies to create a company to dominate and compete with companies with foreign capital invested. However, high costs and organizational problems resulted in a smaller PSH. Currently, the company is seeking an additional PLN 200 million for its current operation and necessary modernization.

The major problems affecting the Polish sugar industry are the relatively high costs of processing due to small facilities and short processing periods. A number of investors started restructuring their facilities by closing less efficient ones and extending production in others. As a result 20 of 76 refineries were idle last season (11 did not process in MY 2002/03). As result of the restructuring that took place last season processing time averaged 73 days, which was almost 20 days longer compared to the previous two seasons. The lowest processing costs occur when processing is at least 85 days. Additional restructuring decisions are expected before the new season begins. The PSH announced the closing of 9 refineries to increase efficiency and reduce its costs of processing. Foreign investors have announced similar decisions. British Sugar will close one refinery. Pfeifer und Langen will process in 4 of 11 refineries and Nordzucker will likely process in only two refineries.

Following was a structure of sugar production during MY 2002/03:

Company	No. of Refineries	Closed Refineries	Sugar Produced in MY 2003/03	Country Share	Length of Processing
British Sugar Overseas (BSO)	10	5	213,300 tons	10.5%	89.1
Pfeifer und Langen	11	3	334,200	16.6%	75.6
Sudzucker	6		160,300	7.9%	59.7
Nordzucker	6	N/A	162,500	8.1%	59.5
Slaska Sp.Cukrowa	16	2	350,700	17.4	69.2
Krajowa Spolka Cukrowa (PSH)	27		798,000	39.5%	62.3
Country Total	76	11	2,018,400	100%	67.0

The average Polish sugar refinery processes approximately 3,000 tons a day compared with 12,500 tons in the Netherlands, 10,500 tons in Austria, 9,140 tons in Denmark and 7,685

tons in the rest of the European Union. Twenty-five percent of the beet crop is processed in the 9 largest refineries. Some experts believe that half of all refineries could be closed and production would still meet domestic demand.

Consumption

Polish sugar consumption has remained virtually unchanged since 1994. Sugar consumption in Poland was approximately 44.6 kilograms per capita (raw value) in CY 2003. Total domestic sugar consumption is estimated to be 1.72 million tons, equal to the CY 2002 level. The Institute of Agricultural Economics estimates that total direct sugar consumption in households and restaurants/cafeterias was 900,000 tons (978,300 tons raw value) in CY 2003, down slightly from CY 2002. Industrial sugar consumption increased slightly to a total of 620,000 tons (673,940 tons raw value). As a result of foreign investment, fruit and vegetable juice, beer, chocolate and ice cream production have experienced relatively strong growth in recent years. The production of high sugar content products has leveled over the past two years, however, strong juice and jam production growth continues.

Sugar retail prices have not change significantly in Poland over the last few seasons, as reflected by retail prices that were slightly above PLN 2 (\$ 0.51) per kilo. These prices began to decline as a result of a change in regulation, which no longer required the industry to sell sugar at or above intervention price (retail prices are presented in table below). The situation began to change in March and April 2004, as Poland approaches accession and Poles fear that post accession sugar prices will be drastically higher. Since April 2004 there has been very strong demand at retail markets for sugar and prices surged almost 50 percent, from PLN 2 to almost PLN 3 for a few days. Sugar prices are expected to rise at least 70-80 percent after Poland joins the EU. As of July 1 sugar refineries will be able to demand EURO 632 per tone, as this is the price set by the EU for 2004. This could mean that the price of 1 kg of sugar in shops will increase to PLN 3.5-4 in July.

Centrifugal Sugar Price Table

Country Poland**Commodity** Centrifugal SugarPrices in **PLN** per uom **kilogram**

Year	2002	2003	% Change
Jan	2.15	1.95	-9%
Feb	2.15	1.95	-9%
Mar	2.15	1.95	-9%
Apr	2.15	1.95	-9%
May	2.14	1.92	-10%
Jun	2.14	1.82	-15%
Jul	2.14	1.78	-17%
Aug	2.12	1.72	-19%
Sep	2.13		-100%
Oct	1.99		-100%
Nov	1.98		-100%
Dec	1.96		-100%

Exchange Rate **3.9** Local Currency/US \$Date of Quote **4/7/2004** MM/DD/YYYY

In addition to beet sugar, Poland produces honey, glucose and starches. Thus far, there has been little substitution among these sweeteners for beet sugar on the Polish market. However, iso-glucose production increased over the past two years due to the expanding capacity of Cargill's facility and soft drink manufacturers demands. It is the only iso-glucose production plant in Poland.

Production of Non-Sugar Sweeteners, 2000-2003 (1000 metric tons):

	CY 2000	CY 2001	CY 2002	CY 2003
Honey, bee	8.6	9.0	9.6	9.0
Honey, artificial	0.7	1.1	1.5	1.5
Glucose from potatoes	3.5	2.0	N/A	N/A
Iso-glucose (glucose-fructose syrup)	23.6	38.8	N/A	N/A
Iso-glucose (dry matter, 42% fructose)	16.8	27.6	43.5	64.0

Source: Institute of Agricultural Economics

In 2002, iso-glucose production reached 43,500 tons (dry product, 42% fructose). Polish iso-glucose production capacity reached 80,000 tons in CY 2000 but was expected to be 120,000 in 2002. If such capacity were fully utilized, it would be equivalent to approximately 84,000 tons of white sugar which could reduce some demand for beet sugar. In 2002/03

iso-glucose production was limited by quotas. Quota A for 2003/04 has been increased from 40,000 tons to 60,000 tons (dry product, 42% fructose) and quota B at 2,200 tons. Production quotas after EU accession are much smaller than current capacity, for 2004/05 quota A is 24,911 tons and quota B 1,870 tons.

Trade

In current MY Poland continues large sugar exports for the second consecutive year. Estimated MY2003/04 exports may be well over 400,000 tons. About three quarters of these exports are at world market prices, without subsidies. Poland is limited to 111,091 tons of (raw equivalent) sugar exports with subsidies per its WTO commitment.

For CY 2003, available data for January - November showed 368,302 tons of white sugar exported, which was more than double the amount for the same period of 2002. The largest markets for sugar were Ukraine and other former Soviet Union countries. Each kilogram of sugar sold domestically during MY 2002/03 was taxed two percent of the intervention sugar price (1.85 PLN/kg) of A quota production and 16 percent of the intervention price of quota B production to pay for export subsidies in CY 2004.

Despite an oversupply of sugar on the market in Poland, significant sugar imports are reported each year. Imports totaled 90,000 tons (raw value) in MY 2002/03 because of relatively low sugar prices on the world market. Imports were mainly from EU and CEFTA countries, within reduced tariff rate quotas (TRQ). As of April 7, 2004, in accordance with an EU decision, sugar exported to new members states will not be subsidized. The decision will result in higher prices for a number of products that contain sugar and that are exported. Sugar imports within TRQ after accession will follow general EU regulations.

Centrifugal Sugar Import Table**Country** Poland**Commodity** Centrifugal Sugar

Time Period	Sep.-Aug.	Units:	tons
Imports for:	2002		2003
U.S.		U.S.	
Others		Others	
Germany	21915	Germany	45214
Slovakia	12283	Denmark	8216
Czech Rep.	12862	Slovakia	7913
Brazil	3199	Czech Rep.	4808
Romania	3683	Lithuania	4518
Belgium	1184	France	2625
Denmark	2208	Brazil	2262
		Sweden	1935
		Romania	1182
Total for Others	57334		78673
Others not Listed	5018		3537
Grand Total	62352		82210

Note: Figures in the Trade Matrix tables are in product value, based on data from the Global Trade Atlas -WTA

Centrifugal Sugar Export Table**Country** Poland**Commodity** Centrifugal Sugar

Time Period	Sep.-Aug.	Units:	tons
Exports for:	2002		2003
U.S.	0	U.S.	0
Others		Others	
Ukraine	21713	Ukraine	129240
Slovakia	3359	Russia	54473
Czech Rep.	7882	Hungary	39605
Hungary	2774	Slovakia	27012
Russia	1826	Yugoslavia	25429
		Uzbekistan	24882
		Tajikistan	23525
		Romania	18139
		Moldova	16027
		Germany	15418
Total for Others	37554		373750
Others not Listed	3445		48978
Grand Total	40999		422728

Note: Figures in the Trade Matrix tables are in product value, based on data from the Global Trade Atlas -WTA

Stocks

Large production in 2003/04 should result in stock accumulation, however a strict regulation concerning production over quota levels should push the industry to export the over production quantity at market prices. It is estimated that stock levels at the end of MY 2003/04 will be below 300,000 tons. Relatively high stocks have been blamed for reduced local sugar prices and low industry profitability.

In addition to sugar stocks held by the industry, the Agricultural Market Agency (AMA) also holds significant sugar stocks. The AMA is responsible for intervention in the market and maintaining government stocks.

EU regulation no. 60/2004, dated 01/14/2004, obligates Poland and other new member states to report and penalize companies which accumulate an over supply. This regulation will require a separate domestic law, which has not been approved because it faces significant opposition.

Policy

- Sugar Market Regulation Law and Production Quota Levels:

A June 2001 law, which regulates the sugar market in Poland was modified in 2003 to better serve the market and to be compatible with EU regulations. The law is intended to support domestic beet farmers and the sugar-processing sector by developing stable production conditions. It institutes intervention prices for sugar, creates a contract and "basic" beet price system, establishes price guarantees for beet producers, establishes production quotas for sugar, iso-glucose and inulin production quotas, and limits processing to domestic raw materials for both sugar and iso-glucose. The law is designed to assure beet farmers that the majority of domestic sugar demand will be met by domestically produced beet sugar.

The law requires the Council of Ministers to determine production quotas each year. Separate quotas are set for domestic consumption and for exports. Quota A is established for domestic sugar sales while quota B is for subsidized exports. All sugar produced exceeding these quotas is called Production C, which cannot be sold on the local market but can only be exported without subsidies.

For 2003/04, the white sugar A production quota has been slightly reduced (by 21,740 tons less) from 2002/03, down to 1,652,240 tons (equivalent of 1.520 MMT white sugar). The iso-glucose production quota, which was introduced for the first time in MY 2002/03 has been increased from 40,000 to 60,000 tons of dry product in 42% iso-glucose solution for MY 2003/04. The total subsidized sugar export level (quota B) for MY 2003/04 was reduced from the MY 2002/03 level of 113,483 tons to 111,091 tons (equivalent of 102,200 from 104,400 tons white sugar) due to reallocation of quota B iso-glucose. The iso-glucose quota B was set at 2,200 tons (dry product, in 42% concentrate solution) at an annual allocation rate. The combined sugar and iso-glucose subsidized export B quotas are equivalent to 104,400 tons of white sugar which is the same level the B quota has been since CY 2000. No inulin production quotas have been established at this point.

Based on Poland's EU accession agreement, sugar production quotas were set at 1,580,000 tons white sugar (1,717,460 ton of raw sugar) for domestic use quota A and 91,926 tons quota B (99,924 tons of raw sugar) for export with subsidies. For iso-glucose production, the total agreed quota is 26,781 tons (quota A 24,911 tons and quota B 1,870 tons). Poland had

reportedly originally sought a much higher iso-glucose production quota, however, the EU rejected the request. This level of production quotas was set for sugar and iso-glucose production beginning with MY 2004/05.

- Price Policy and Changes:

Since MY 2002/03, the GoP has set an intervention price for white sugar (the price which the AMA will pay for white sugar purchased under the intervention program) and a basic price for sugar beets. For the current MY the intervention price for white sugar has been set by the Council of Ministers at PLN 185 per 100 kilograms (it was PLN 180 for MY 2002/03 (PLN 3.9 = \$1). The MY Council of Ministers set the intervention sugar price at the same level as in the EU, Euro 63.19 (at current exchange rate PLN 297) per 100 kilograms of white sugar, which will be significantly higher (more than 50 percent) than during current MY. The intervention price is only a guideline for government institution to start procurement within the intervention program. The industry can sell the product below the intervention price, in 2002/03 there were reports of sugar sales below PLN 198 per 100 kilo, the intervention price with VAT included.

The Basic sugar beet price for MY 2003/04 was set at PLN 125.35. The minimum price paid to farmers for beets delivered within quota A has been set for MY 2003/04 at PLN 122.84 per ton (31.5) of beets with 16% sugar content (PLN 115 per for MY 2002/03) and PLN 85.24 per ton of beets delivered within quota B. These prices are modified according to the sugar content in beets. The Council of Ministers sets the basic sugar beet price at the same level as in the EU, which is Euro 47.67 per ton of beets (VAT not included). That level will be calculated into a minimum producer price at 16 percent sugar content level based on the PLN exchange rate as of July 1, 2004. Consequently, prices paid to farmers for beets to sugar producers in Poland after accession may increase significantly, more than 50 percent above current price levels. This suggests that beet production will become more competitive with other crops. However, because sugar beet production is based on contracts with the industry there may not be an increase in current production levels. The sugar yields in Poland are usually far lower than in other EU countries. In recent years the raw sugar production from one hectare in Poland has increased to about 7 tons (7.4 ton/ha in MY 2003/04), while the EU average is about 10 tons. Higher prices for sugar beets result in higher raw material costs and lower profits for the refining industry.

-Tariffs:

The Polish Government protects domestic beet and sugar production by applying high tariffs on imported sugar. Many products with high sugar content have an additional tariff assessed based on product sugar content. The basic tariffs and regulations effective until May 1, 2004 were the same as for 2002 (see PL 3010, dated 4/10/2003). These tariffs are only valid until May 1, 2004 when Poland joins the EU and adopts EU external sugar tariff rates. Tariff rate import quotas, which are at the same level as in 2003, were adjusted to be consistent with the portion of the year when effective.

A large number of EU products that contained subsidized sugar were imported. EU regulations and relevant Polish regulations which increased the tax on high stocks were enacted to eliminate such stock buildup. However, the most significant step was the EU ban on use of such subsidies as of April 7.

-Export subsidies:

Poland's WTO commitments allow for certain quantities of subsidized sugar exports. The level of sugar exported with subsidies was scheduled to decrease each year until the year 2000. Since then, the level of subsidies agreed to has been the same until 2003. Current WTO commitments are 104,400 tons of refined sugar (equivalent of 113,482 tons of raw sugar) at a maximum total subsidy value of \$32 million. Since CY 2002 this quota has been reduced by 2,200 tons and reallocated for iso-glucose. Subsidized exports are paid for with money collected from taxes on domestically produced sugar, iso-glucose and inulin. Such taxes are 2% of the intervention sugar price (or equivalent of iso-glucose) for production within quota A and 16% of the intervention price of sugar produced within quota B (sugar or iso-glucose for export).

Marketing

Products covered by quotas are allowed to be imported only under specific conditions. The annual quota (PCN 1701) is split into equal quantities each quarter of the year and quarterly quotas are allocated for importers distributed equally among those who apply. The size of individual import permits within the tariff rate quotas is limited to a maximum of 100 tons. An importer applying for a quota has to pay a deposit of 30 Euro per ton for an import permit. This relatively large deposit is paid to the ARR and is returned after the actual import occurs. It is lost if the quota allocation is not fulfilled. Importers who receive quota allocations are obliged to submit monthly reports of such imports.